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# Entrepreneurial Marketing in Informal Economies

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## LEARNING OBJECTIVES

On completion of this chapter you should be able to:

- Understand the nature and development of entrepreneurial marketing in the informal sector;
- Recognise the contribution of the informal sector to the development of both developed and emerging market economies;
- Appreciate the overall prevalence of the informal economy across regions and sectors in which they are concentrated;
- Assess the myths and realities associated with marketing in the informal economy; and
- Evaluate respective efforts at mainstreaming the sector undertaken by governments around the world.

## 10.1 INTRODUCTION

The informal economy refers to the paid production and sale of goods and services which are unregistered by, or hidden from, the state for tax and/or benefit purposes but which may still be legal in all other respects (European Commission, 1998; Portes, 1994; Thomas, 1992; Williams and Windebank, 1998). As such, the informal economy includes only paid work that is illegal because of its non-declaration to the state for tax and/or social security purposes. Paid work in which the good and/or service itself is illegal (e.g. drug trafficking) is thus considered unpaid work (Williams, 2007, p. 350).

Before you start wondering why we are talking about the informal sector in a textbook dedicated to SME marketing, it should be pointed out early enough that for a long time now, discussion on SME marketing seems to have focused majorly on the formal economy with a concomittant neglect of SME marketing in the informal economy. Paradoxically, the bulk of small business activities in developing countries (especially micro enterprises in which a significant proportion of the population is engaged, up to 60% in some African economies) is hugely accounted for through the informal economy (see Cisse, 2001).

Furthermore, the numerous independent and unregistered businesses across the globe that account for as much as 60% of global economic output have been part of the informal economic system. With the globalization of markets, the prevalence of informal economy has persisted and indeed expanded due to the ease with which it can be imported through migratory pipelines (e.g. ethinc minority businesses spread across different parts of London, job displacement and strict enforcement of regulations force many consumers and producers into the informal economy).

Arguably, businesses in the informal economy play major socio-economic roles in the exchange process. In the Third World, however, it has been recognized for several decades that the undeclared sector acts as ‘an incubator for business potential and ... transitional base for accessibility and graduation to the formal economy’, and that

many undeclared workers show ‘real business acumen, creativity, dynamism and innovation’ (ILO, 2002: 54). During the past few years, a similar view of undeclared work has started to emerge in Europe (Renooy *et al.*, 2004; Small Business Council, 2004; Williams, 2004, 2006a). But what exactly is undeclared work and how does it relate to the topic on the informal sector? The next section provides the multifarious definitions of the sector, which is primarily informal economy-driven.

## 10.2 THE INFORMAL ECONOMY – IN SEARCH OF A DEFINITION

The phrase *informal sector* has proved difficult to be given a universalistic definition. As a result of this, different meanings and estimates have been attempted in its measurement. In most cases these definitions and measurements vary widely and tend to militate against reasonable conclusions and generalisations. Most often, the informal sector has been mistaken for deleterious activities such as smuggling, black market, illegal transactions, underground sector, and unofficial transactions (see Williams, 2004, 2005, 2007).

Despite these unpopular labels of the informal sector from “cash-in-hand work”, through the “shadow economy” or “underground sector,” it remains a construct that has been in constant flux - both theoretically and practically. This constantly evolving pattern thus makes it difficult to *observe, study, define and measure*. Despite this fluidity, attempts have been made by economists and social scientists to define and even more tedious - measure it. As expected, the result of such efforts has yielded as many definitions as there are authors. One of the popular definitions of the informal economy conceptualizes the informal economy as the paid production and sale of goods and services which are unregistered by or hidden from, the state for tax and/ or benefit purposes but which are legal in all other respects (European Commission, 1998; Williams and Round, 2009). Taking this as a working definition, the sector remains informal by falling outside the regulatory framework of most governments for tax purposes.

### 10.2.1 THE REGULATORY FRAMEWORK

Evident from the definition above is the fact that small business marketers, who are the predominant operators in the informal economies, can be distinguished from their mainstream counterparts on the basis of business registration. An unregistered business (typical of an informal economic activity) is most unlikely to pay taxes even though it might not necessarily be engaged in unlawful activities. On this basis, SME marketers should not be confused with those other operators that engage in criminal activities such as arms dealers, child traffickers and brothel operators (especially in the UK where the practice is illegal).

To illustrate this point, two theoretical perspectives have been used to explain the emergence of the informal economy. The first is the argument that the increasing informalisation is a direct consequence of government over regulation of the economy, which leaves these small players little room for survival. Under such circumstances, the informal economy tends to provide a strategic choice for survival. Harney (2006:374) for instance captured this reality in his description of a typical informal Neapolitan neighbourhood of La Pignasecca thus:

[...] by the early afternoon the municipal police are gone so the street vendors set up their cardboard tables, lay their tarpaulin and sheets and arrange their goods – inexpensive children’s electronic toys, kitchenware, linen, lingerie, binoculars,

calculators, perfume, posters of pop stars, and football players – on the main thoroughfare without fear of fines.

The second perspective sees the informal economy as “an unavoidable expression of the uneven development inherent in late capitalism... (thus) evasion of regulation is simply part and parcel of a cost-cutting imperative on the part of small entrepreneurs struggling for survival in the marginal and diminishing market space left over by the expansion of corporate capital” (Jones, Ram and Edwards, 2006:358). Following this orthodoxy, it is argued that capitalism was a key driver of the informal economy as those displaced from the formal sector by corporate capitalists take solace in the informal economy. Again, with the globalized market system, Nkamnebe (2006) argued that most sub-Saharan African (SSA) economies may find it difficult to catch-up with the dominant economies and would, therefore, resort to the informal economy for survival. This somewhat explains the increasing expansion of the informal economy in the developing economies.

Arguably, using these two perspectives to explain a rather complex informality phenomenon may amount to triviality. In reality, the emergence and growth of the informal economy is predicated upon myriads of economic, political, cultural, and migratory influences (see Williams, 2004, 2005; Jones *et al.*, 2006). While the difficulty of defining an informal economy has been recognized due to the shifts in the nature of the construct, the framework in Table 10.1 suggested by Schneider (2002) may be helpful for developing a middle ground definition of the concept.

**Table 10.1 A Taxonomy of types of underground economic activities**

Type of activity	Monteray transactions		Non Monetary Transactions	
<b>Illegal Activities</b>	Trade with stolen goods: drug dealing and manufacturing; prostitution, gambling, smuggling and fraud.		Barter of drugs, stolen goods, smuggling etc. Production or growing drugs for personal use. Theft for own use.	
	<b>Tax Evasion</b>	<b>Tax Avoidance</b>	<b>Tax Evasion</b>	<b>Tax Avoidance</b>
<b>Legal Activities</b>	Unreported income from self-employment: Wages, salaries and assets from unreported work related to legal services and goods.	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbour help

Source: Adapted from Schneider (2002).

### 10.3 KEY FEATURES OF THE INFORMAL ECONOMY

Essentially, most operators in the informal economy are largely the poor and middle income developing or emerging economies and/ or ethnic minorities and immigrants in the more advanced economies. Arguably, they are mainly occupants of the so-called *bottom* or *base of the pyramid* that have been recognized as constituting substantial portion of the economic activities of modern economies. For instance, Humphreys (2004) estimated the total purchasing power of all ethnic minorities in the US for 2009 amounted to about US\$1.5 trillion. Jamie and Billou (2007:14) captured the potential of this market thus:

Consumers at the very bottom of the economic pyramid – those with per capita incomes of less than \$1,500 – number more than 4 billion. For more than a billion people – roughly one-sixth of the world's population – per capita income is less than \$1 per day.

The 20 largest emerging economies include more than 700 million such households, with a total annual income estimated at some US\$1.7 trillion, and this spending power was approximately equal to Germany's annual gross domestic product about a decade ago (Prahalad and Hart, 2002). The spending power of Brazil's poorest 25 million households, for example, amounts to US\$73 billion per annum, while China's poor residents account for 286 million households with a combined annual income of US\$691 billion. India has 171 million low-income households with a combined US\$378 billion in income (Billou, 2007). Given this picture, it is obvious that SME marketing in the context of informal economies would tend towards *bottom-of-the-pyramid* marketing strategies. This chapter, therefore, examines the nature, size and dynamics of informal economy and discusses marketing strategies that are applicable in such setting at the end of the chapter (see section 10.6).

#### **10.4 MEASURING THE INFORMAL ECONOMY**

The informal economy is by definition unregistered by and/or hidden from the state. As such, estimating its prevalence is a difficult task. Until now, measurement methods have ranged from techniques that indirectly measure its magnitude by using proxy indicators to methods that attempt to directly measure its prevalence (for reviews, see Bajada, 2002; Thomas, 1992; OECD, 2002; Renooy *et al.*, 2004; Williams, 2004a; Williams and Windebank, 1998).

So far as indirect methods are concerned, proxy indicators used to assess its prevalence range from non-monetary indicators such as the prevalence of very small enterprises and electricity demand, monetary proxies such as the number of large denomination notes in circulation, the cash-deposit ratio or level of cash transactions, and income/expenditure discrepancies either at the household and/or national level. Over time, however, there has been a waning interest in these indirect proxy measurement methods (for reviews, see Thomas, 1992; OECD, 2002; Williams, 2004a, 2006). The strong consensus that has emerged is that indirect methods are not only relatively inaccurate as measures of size but also limited in their usefulness for understanding the distribution and nature of such work. This is the conclusion of both OECD experts in their handbook on measurement methods (OECD, 2002) and the most recent European Commission report on undeclared work (Renooy *et al.*, 2004), as well as a host of academic evaluations of direct and indirect methods (Thomas, 1992; Williams, 2004a, 2006; Williams and Windebank, 1998).

Recently, therefore, much greater emphasis has been placed on more direct survey methods to measure the magnitude of such work (OECD, 2002; Renooy *et al.*, 2004; Williams, 2006). Reflecting this, the European Commission recently evaluated the feasibility of conducting a direct survey of undeclared work across the European Union (European Commission, 2005).

In the UK Her Majesty's Revenue and Customs (HMRC) commissioned consultants to develop methodologies for conducting direct surveys of the informal economy (Her

Majesty's Revenue and Customs, 2005). The major impetus for these direct surveys of the informal economy is the current poverty of knowledge on its size and distribution. Until now, that is, most direct surveys have tended to be small-scale, usually conducted on specific localities which take the household as the unit of analysis (e.g. Barthe, 1985; Fortin et al., 1996; Lemieux et al., 1994; McCrohan et al., 1991) and focus on off-the-books transactions in the domestic services sector (e.g. Howe, 1988; Leonard, 1994; Pahl, 1984; Warde, 1990; Williams, 2004a, 2005, 2006; Williams and Windebank, 2001). Few extensive nationally representative sample surveys (for an exception, see Pedersen, 2003) have been conducted and surveys of businesses (rather than households) are notable by their absence.

This current shift towards using direct surveys rather than relying on indirect proxy indicators, of course, has its critics. The major criticism, usually from the users of indirect methods, is that direct surveys naively assume that respondents will reveal to them, or even know, the prevalence of informal work. Yet the evidence appears to be that direct surveys produce fairly reliable and valid data. For example, Pahl (1984) found that when the results from individuals as suppliers and purchasers were compared, the same level of informal work was discovered. Similar conclusions have been identified in previous studies (e.g. Leonard, 1994; MacDonald, 1994; Williams, 2004a, 2006; Williams and Windebank, 2001). The implication, therefore, is that respondents are not secretive about their informal work. Just because it is activity hidden from or unregistered for tax and/or social security purposes does not mean that respondents are unwilling to discuss it with researchers.

Having stated this, however, it is important to recognise that the direct (household) surveys so far conducted have been carefully and delicately designed with data on informal work being gathered usually within the context of a broader study of "household work practices" (Leonard, 1994; Pahl, 1984; Warde, 1990; Williams, 2004a, 2006). That is to say, they have tended to investigate the practices households use to get a variety of domestic tasks completed and whether household members undertake tasks for other households (either on a paid or unpaid basis) in order to identify the prevalence and nature of informal work.

Even if honesty of response (and thus reliability of the data) does not appear to be a valid critique of most well-designed direct survey methods two salient criticisms of direct methods remain.

- On the one hand, direct approaches have so far largely investigated only informal work used in relation to service provision in particular (especially domestic services) and final demand (spending by consumers on goods and services) more generally, rather than intermediate demand (spending by businesses). Final demand, however, accounts for just two-thirds of total spending. There exists a strong case for extending direct investigations to include business surveys rather than solely household surveys.
- On the other hand, most direct surveys have so far tended to be confined to small-scale, often qualitative studies, of particular localities, groups or sectors. The result is that it has been difficult to gain any representative picture at the national level of the overall prevalence, nature and distribution of informal work.

In sum, there has been a gradual shift away from indirect towards direct survey methods when measuring the prevalence of informal work. Small-scale, mostly locality-specific, studies have been conducted and there has been a heavy emphasis on using the household as the unit of analysis as well as only examining domestic service provision rather than taking business as the unit of analysis and examining the full range of goods and services provision. In late 2004 the UK's Small Business Service (SBS) took the decision to include a series of questions on informal work in a nationally representative survey of small businesses so as to provide the first national business survey of the prevalence and impacts of such work.

#### 10.4.1 ANNUAL SMALL BUSINESS SURVEY REPORT

The aim of the 2004-2005 Small Business Service (SBS) Annual Small Business Survey was to gauge the needs of small businesses, assess their main concerns and to identify the barriers that prevent them from fulfilling their potential. The survey was based on telephone interviews with a large sample of 7,505 UK small businesses. The telephone interviews for this survey were conducted in the fourth quarter of 2004 and the first quarter of 2005 (SBS, 2006; Williams, 2007).

When constructing the sampling frame, the intention was not to reflect the distribution of firms by size in the UK or their geographical distribution. Instead, more micro (1-9 employees), small business (10-49 employees) and medium-sized businesses (50-249 employees) were sampled than would be required to match the proportion in the UK economy (and fewer sole traders and partnerships without employees), and more firms in Wales and Scotland were sampled so that these countries' businesses could be analysed in detail.

The decision by the SBS to include questions on the prevalence and impact of the informal economy in this 2004/05 survey arose directly out of a Small Business Council (2004) report that sought to evaluate the extent and nature of the informal economy and propose ways of tackling small businesses working on an off-the-books basis. In that national report, a lack of evidence was identified concerning not only the overall magnitude of this "hidden enterprise culture" but also the economic sectors, businesses and geographical areas in which such work took place. Both the Small Business Council (2004) report and the government response to its recommendations (SBS, 2005a) agreed that improving the evidence-base was a necessary precursor to concerted and targeted public policy action.

As the Rt. Hon. Alun Michael, Minister of State for Industry and the Regions, states in the foreword to the government response to the SBC report (Small Business Council, 2004): "We do not have as clear a picture as we would like of the scale and nature of the informal economy" (SBS, 2005a, p. 1). While the full report, summing up the government's perception of its knowledge on the informal economy, stated that "the size and composition of the informal economy is uncertain" (SBS, 2005a, p. 5), the report concluded in the final paragraph that "more research is required both into the size and character of the informal economy" (SBS, 2005a, p. 19). This explicit recognition of the lack of an evidence base was further reinforced later that year by an Office of National Statistics (ONS) report on data sources on the informal economy. This concluded that there is currently little or no extensive data available of the magnitude and distribution of the informal economy (ONS, 2005).

Reflecting the wider emerging consensus that indirect methods, which measure the informal economy using proxy indicators, are both unreliable and invalid (OECD, 2002; Renooy *et al.*, 2004), these reports were thus highlighting the lack of any direct national survey of the extent and distribution of such work. Given this background context of government recognition of the lack of extensive direct surveys of the informal economy.

Until 2007, most direct surveys of the informal economy have taken the household as the unit of analysis and focused upon provision in the domestic services sector (e.g. Leonard, 1994; Pahl, 1984; Warde, 1990; Williams, 2005). The few studies that have taken businesses as the unit of analysis have been small-scale ethnographic studies based on face-to-face qualitative interviews conducted by academics and focusing on a small number of firms in particular localities working in a specific sector (e.g. Jones *et al.*, 2004; Ram *et al.*, 2001, 2002a, b, 2003). This SBS survey was thus the first study in an advanced economy to conduct an extensive survey of businesses with regard to the prevalence and impacts of informal work. Indeed, given that small businesses employing less than 250 comprise 99.9 per cent of all enterprises in the UK economy (SBS, 2005b), this survey comprises a relatively comprehensive portrait of UK business opinion.

Extending the discussion beyond the confines of the UK economy, another separate study by Guesalaga and Marshall (2008) used the buying power index (BPI) methodology to evaluate the size of the informal economy (bottom-of-the-pyramid – BOP). The use of this latter approach was in order to estimate the business opportunities as measured by the purchasing power of these economies. According to these authors the justification for using the BPI in the context of low-income consumers is twofold. On the one hand, this approach has been successful in measuring the relative buying power of people in specific geographic areas, in many different contexts – thus making the instrument valid and generally acceptable. On the other hand, most of the literature on BOP assesses the opportunities in the low-income sector based on a purchasing power driven by population, income, or both, without considering the ‘expenditure’ dimension (see Box 10.1 for a brief summary of the major conclusions about the various regions).

#### **Box 10.1 Consumption Patterns Across Regions Based on BPI**

Relative to the total market, the BOP sector accounts, on average, for more than 50 percent of the purchasing power in developing countries, with Africa being the most prevalent BOP region. Asia is, by far, the region with the highest purchasing power, relative to Africa, Eastern Europe, and Latin America and the Caribbean. In addition, the results show that, in terms of income tiers within the BOP segment, the greatest buying power resides in the lowest tier (annual income of \$1,000 or less) in the case of Africa and Asia, but in the second tier (annual income between \$1,001 and \$2,000) in the case of Eastern Europe and Latin America and Caribbean. For the various region, the following are obvious:

- **Africa** - As the income level rises, people in Africa spend more in household goods, health, transportation, and information technologies and communication, and less in food and energy.
- **Asia**- As the income level rises, people in Asia spend more in housing, transportation, and information technologies and communication, and education, and less in food.



- **Eastern Europe** - With an increase in the income level, people at the BOP from Eastern Europe spend more in housing, household goods, information technologies and communication, and education, and less in food.
- **Latin America and Caribbean** - As income increases, people spend more in housing, health, transportation, information technologies and communication, and education, and less in food, energy, and household goods.

## 10.5 RELATIONSHIPS BETWEEN THE INFORMAL & FORMAL ECONOMY

Despite the conflicting conclusions over the nature and size of the informal economy, the general impression is that the size of the global informal market is robust enough to warrant coordinated strategies to harness. Going by the recent global economic crisis, it has become clear that no economy in the world is immune from failure, thus making even the largest economies and *Fortune 500* corporations consider investing in sectors hitherto considered unprofitable. Indeed, at the height of the recent global financial crisis, the Organised Private Sector (OPS) in an emerging market context such as Nigeria alluded to the fact that the informal economy was the ‘backbone’ of that economy. The same holds true in most economies of the world where the informal sector is dominant player (see table 10.2 for some of the statistics from 1999-2000). Accordingly, the informal economies of the developing countries and other underserved markets deserves increasing corporate attention. Guesalaga and Marshall (2008:413) captured this emerging trend thus:

[...] with markets in the developed economies experiencing slow growth [...], private companies should look for business opportunities in emerging markets with low-income consumers; that is, at the bottom of the pyramid (BOP). There is an untapped potential for marketing to this sector, which is composed of approximately four billion people worldwide.

The main argument for targeting the BOP market is that there is significant purchasing power in this segment. Prahalad and Hammond (2002) once stated that “*tier 4 represents a multitrillion-dollar market,*” and argue that multinational corporations have an attractive opportunity at the BOP. Likewise, Hammond *et al.* (2007) estimated that people at the base of the pyramid – with annual incomes below US\$3,000 – constituted a five trillion global consumer market annually. In both cases, the argument is that, based on income level and population at the BOP, purchasing power of low-income consumers exists (Guesalaga and Marshall, 2008). Though it is difficult, if not impossible, to calculate the exact size of the informal economy, yet the work of Schneider (2002) provides a reasonable guide.

**Table 10.2 Selected Sizes of Informal Economies in the World**

<b>Region</b>	<b>% of GDP</b>	<b>Highest</b>	<b>Middle</b>	<b>Lower</b>
<b>Africa</b>	42% for the years 1999/2000.	Zimbabwe (59.4%), Tanzania (58.3%) and Nigeria (57.9%)	Mozambique (40.3%), Cote d’Ivoire (39.9%) and Madagascar (39.6%).	Botswana (33.4%), Cameroon (32.8%) and South Africa (28.4%).
<b>Asia</b>	26% of official	Thailand (52.6%), Sri Lanka (44.6%),	India (23.1%), Israel (21.9%),	Singapore (13.1%), Japan

	GDP for the years 1999/2000	and Philippines (43.4%).	Taiwan and China (19.6%)	(11.3%). On average the Asian developing.
<b>South and Latin America</b>	% of GNP is 41%.	Bolivia (67.1%), Panama (64.1%), and Peru (59.9%).	<i>N/A</i>	Chile (19.8%), Argentina (25.4%).
<b>Transition Economies</b>	38% for the year 1999/2000.	Georgia (67.3%), Azerbaijan (60.6%), Ukraine (52.2%)	Bulgaria (36.9%), Romania (34.4%).	Hungary (25.1%), the Czech Republic (19.1%), Slovak Republic (18.9%).
<b>West European OECD</b>	18% for the year 1999/2000.	Greece (28.6%), Italy (27.0%).	Denmark (18.2%), Germany (16.3%)	Austria (10.2%), Switzerland (8.8%).
<b>North America and Pacific OECD Countries</b>	13.5%.	Canada (16.3%), Australia (15.3%), the New Zealand (12.7%) and United States (8.8%).		

Sources: Cisse, M. (2001, September) and the Bureau of African Affairs (2003).

## 10.6 MARKETING IN THE INFORMAL ECONOMY

Early thinking was that informal economy only existed in the ‘underground’ or ‘black’ markets that are prevalent in the developing economies of the world (see Box 10.2). However, recent evidence conceptualises market informality as a global phenomenon.<sup>1</sup> Initial predictions of the modernization theory of the 1950s and 1960s, suggested that informality was a consequence of underdevelopment that would disappear as soon as the undeveloped economies became more advanced. Indeed, Schneider (2002) used the estimation of informal economy sizes of 110 developing, transition and OECD countries to illustrate the global dimension of informal marketing dynamics. With the increasing size and pervasive nature of the informal economy across the globe, and the prevalence of micro, small and medium sized enterprises (MSMEs) in this sector, a focus on SME marketing in the informal sector has become practically interesting (see the seminal paper by Carson, 1990). Such focus affords 21st century marketing practitioners the robust knowledge base for hybridising formal and informal markets.

As McGregor (2005) once argued – from the perspective of a Canadian study – that there was a collection of marketplace imperfections around which consumer movement issues are conventionally organised – product choice and safety; package and labelling; pricing strategies; information and advertising; selling; promotion and distribution; complaints and redress; repairs and warranties; consumer education; an dprotection of consumers’ interests. She went on to assert that patronising SMEs

<sup>1</sup> Examples exist across the developed world from the consumer transactions with SMEs in Canada (McGregor, 2005); to the case of rural England (Williams, 2007); and the matrix approach to informal markets adopted for the European Union (Walle, 2008).

exposed consumers to many challenges and potential market failures (see McGregor, 2005: 12), which include questionable selling practices, handling complaints and redress, as well as repairs and warranties. Some key pointers that emerged in the context examined by McGregor include the problems of:

- Inability to be a repeat customer or to return a product to a store
- Potential of dealing with untrained staff
- Likelihood of shopping in stores that cannot meet service expectations
- Probability of encountering staff with very limited knowledge of consumers needs and buying patterns

To highlight some of the dark sides of the informal market, two special issues of the *International Journal of Social Economics* (Vol 35, Issues 9 & 10, 2008) were dedicated to the informal economy and organised crime. In one of the papers from Issue 9, Walle (2008) highlighted some very instructive insights into the growing blur in the boundaries between the formal and informal economy. Starting with a restated of the informal economy as ‘those income generating activities occurring outside the state’s regulatory framework [...] the scope and character of the informal economy are defined by the every regulatory framework it evades’ (Walle, 2008, p. 657).

In other words, informal economic activities are untaxed, unlicensed and largely unregulated economic activities usually characterised by their small scale of operation. Tripp (2001) suggested that although these activities may be defined as illicit (such as some of the marketing practices of Lebanese in West Africa – see Box 10.2) depending on the country in question, they nevertheless account for the majority of new jobs created in African economies.

#### **Box 10.2 The informal Economy’s Darkside - Lebanese in West Africa**

The Lebanese community across West Africa is thought to be between 80,000 and 250,000 strong.

Although many Africans openly state how much they hate the Lebanese in their respective countries, but the latter’s seed seem to have been sown into the fabric of West African economics, politics and culture. The Lebanese tenacity, aptitude for business and drive to succeed mean they have been not only continued to do business but have also thrived in both the formal and informal economy.

It is more likely they chose to go to West Africa because at around that time American countries tightened their entry requirements after high levels of immigration during the previous century. The French government also ran a recruiting campaign in Beirut looking for middlemen to work the boom in West African groundnut farming, at a time of agricultural crisis in Lebanon.

The Lebanese in West Africa have always been merchants, using their connections abroad to source goods for import, and - like other migrant groups - they use their family networks to keep their costs down. As a result they have built a strong economic presence across the region.

Lebanese businesses have become the backbone of most markets in West Africa,

spanning numerous sectors from car importing, mining, oil services and defence contracts – to the more shadowy worlds of gun-running, diamond-smuggling and crude-oil theft.

Doing business in politically volatile West Africa is not easy. With a poorly-functioning legal system, contracts and other business agreements can be virtually worthless. The Lebanese have discovered that the best way of surviving, where the regime you're doing business with could be overthrown tomorrow, is to court the powerful - whoever they are.

And an aspiring West African 'big man' knows he has to do business with the Lebanese if he has any hope of getting rich.

Source: Walker, A. (2010) Tenacity and risk - the Lebanese in West Africa. BBC News, 25 January. Online at: <http://news.bbc.co.uk/2/hi/8479134.stm> [Accessed 9 April 2010]

However, there could be three identifiable categories of markets – legal market for goods and services, a market of illegal goods and services (i.e. organised crime) and an informal market for legal goods and services. These markets have begun to exhibit blurred boundaries in a variety of ways and often merging. Citin gth ecase of Brussels, Walle (2008, p. 658) highlights how in most cases formal and informal markets share a mutual sort of significance. The location of numerous official European institutions in Brussels has not only attracted non-governmental organisations and other lobby groups whose demands for services such as courier, catering, cleaning and even babysitting have also risen. Services in these sectors have been provided for by the informal sector - often due to the rather lax attitude towards formal regulation as they are hard to monitor.

### **Box 10.3 Technology, SME and the 21<sup>st</sup> century**

The development of the steam engines in the 18<sup>th</sup> Century revolutionized mass production in factories and caused expansion in transportation within the railway system. It led to increased business activities and economic growth. Further advancement in technology and innovations led to the use of diesel and electricity in both factories and the railway system leading to increased production and rail transportation network (Mokyr, 2010).

In the 21<sup>st</sup> Century, the rapid advancement in technology and innovative ideas such as IT and E-commerce have positively altered the way companies do business. There have been significant improvements in global transport and communications, including use of the global communications media such as satellite television and the Internet. Small and medium-sized enterprises (SMEs) are more aware of increased global market opportunities, with India creating a more outward looking economy and China becoming a member of the World Trade Organization (WTO).

There has also been growth in international free trade areas and organizations (e.g. EU, NAFTA, APEC), which introduces the concept of a 'borderless world. This means that barriers are being broken and businesses are no longer localized, and every

business can have an international client base. The result of this advancement in technology is that new business models and markets have been born out of these innovative systems. The introduction of broadband has significantly affected and increased the GDP of both developed and developing countries (Minges, 2015).

In the 21<sup>st</sup> Century, there is also increasing market convergence i.e. the emergence of standardized customer needs across world markets and increasing convergence in product specifications and adoption of similar lifestyles.

**Sources:**

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**Question:**

What are the implications of advancement in technology to SMEs in the 21<sup>st</sup> Century?

## **SUMMARY OF KEY POINTS**

1. The informal economy refers to the paid production and sale of goods and services which are unregistered by, or hidden from, the state for tax and/or benefit purposes but which may still be legal in all other respects.
2. As such, the informal economy includes only paid work that is illegal because of its non-declaration to the state for tax and/or social security purposes.
3. Two theoretical perspectives have been used to explain the emergence of the informal economy. The first is the argument that the increasing informalisation is a direct consequence of government over regulation of the economy.
4. The second perspective sees informal economy as “an unavoidable expression of the uneven development inherent in late capitalism which made the evasion of regulation part and parcel of a cost-cutting imperative on the part of small entrepreneurs struggling for survival in a diminishing market space
5. Essentially, most operators in the informal economy are largely the poor and middle income developing or emerging economies and/ or ethnic minorities and immigrants in the more advanced economies.
6. Consumers at the very bottom of the economic pyramid – those with per capita incomes of less than US\$1,500 – number more than 4 billion.
7. For more than a billion people – roughly one-sixth of the world’s population – per capita income is less than US\$1 per day.
8. The 20 biggest emerging economies include more than 700 million such households, with a total annual income estimated at some \$1.7 trillion.

9. The informal economy is by definition unregistered by and/or hidden from the state. As such, estimating its prevalence is a difficult task. Until now, measurement methods have ranged from techniques that indirectly measure its magnitude by using proxy
10. Recently, therefore, much greater emphasis has been placed on more direct survey methods to measure the magnitude of such work. Reflecting this, the European Commission recently evaluated the the feasibility of conducting a direct survey of undeclared work in the EU.
11. This current shift towards using direct surveys rather than relying on indirect proxy indicators, of course, has its critics. The major criticism, usually from the users of indirect methods, is that direct surveys naively assume that respondents will reveal to them, or even know, the prevalence of informal work.
12. The aim of the Small Business Service (SBS) Annual Small Business Survey is to gauge the needs of small businesses, assess their main concerns and to identify the barriers that prevent them from fulfilling their potential..
13. The decision by the SBS to include questions on the prevalence and impact of the informal economy in this 2004/05 survey arose directly out of a Small Business Council (2004) report that sought to evaluate the extent and nature of the informal economy and propose ways of tackling small businesses working on an off-the-books basis.

## REVIEW QUESTIONS

1. How would you define the informal economy?
2. What are the key features of the informal economy?
3. Measuring the informal economy can be fraught with difficulties. Discuss.
4. “We do not have as clear a picture as we would like of the scale and nature of the informal economy” (SBS, 2002, p.1). Discuss this statement with examples and illustrations of the main characteristics of the informal economy compared to the formal economy.
5. The modernization theory of the 1950s and 1960s suggest that informality was a consequent of underdevelopment that would disappear as soon as the underdeveloped economies become more advanced. Discuss the suggestion focusing upon the specific roles that informal economy plays with diverse societies as an agent of innovation.

## Let's reason together

Soni and Krishnan (2014) suggest that crucial innovation exists outside formal systems. Working in small groups, discuss this suggestion.

How important is the informal economy likely to be in achieving economic recovery and growth in the emerging economies?

Source: Soni, P. and Krishnan, R. (2014). Frugal innovation: aligning theory, practice, and public policy. *Journal of Indian Business Research*, 6(1), pp.29-47.

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## Case Study - The Nigerian Informal Economy

The International Labour Organization (ILO) categorizes a country's informal sector to include employers and their staff in the informal sector, self-employed people and workers not covered by labour unions and protection such as domestic staff (Bromley and Wilson 2018).

The Nigerian informal economy is linked closely to the informal institutions that are prevalent in Nigeria (Arimah, 2001). Arimah (2001) argue that as a result of the informal institutions, there has been significant movements from the formal to informal sector of the economy. For example, because of limited resources and inadequate capital, informal businesses have been known to exploit every opportunity, both legal and illegal, to generate profit and foster growth since these businesses are not governed by regulatory bodies (Webb et al., 2009).

The Nigerian informal economy is characterized by inadequate capital, lack of government regulation/control and poor access to funding and low trade union activities, as well as being largely dominated by women (Awojobi et al, 2014). In addition, the informal sector businesses are always easy to set up as they are not particularly labour or capital intensive, and utilize local/easily sourced materials. Furthermore, most informal sector entrepreneurs do not require formal training to set up businesses (Bromley, 1978).

For example in Nigeria, young people and women have limited access to well-equipped public-sector institutions as few tertiary institutions are built compared to the number of youths and females who need to use these institutions for personal development and entrepreneurship. Similarly, public libraries are almost non-existing (Yousalzai, Saeed and Muffatto, 2015). The lack of information and communication technology equipment also presents a barrier for the poor to access the internet. These lack of adequate facilities has led to vocational training and technical colleges being weak, limited in supply, and poorly equipped. There is also a lack of suitable career advisory services for the young and growing population. A proper investment into Research and Development is also lacking which means that less number of youths are being trained and equipped with suitable entrepreneurial skills (Alon *et al.*, 2013).

These institutional voids are further compounded by high costs of transportation, communication, storage and other overhead costs that further stretch the very limited finances of the informal economy, thus making it impossible for this sector to successfully market their product. These further result in lost opportunities (Lounsbury and Crumley, 2007).

Despite these challenges, the Nigeria's informal economy seems to have a role in significantly reducing poverty in its communities. It is therefore pertinent to argue that if the environment in which businesses in the informal economy operates is adequate and conducive, it can help these businesses to increase its potentials to improve productivity and thrive and possibly compete favourably with the formal

sector since both formal and informal institutions regulate the behavior of actors in a certain institutional arena as well as provide paths in which they operate (Lau et al., 2002). The institutional environment also provides proper incentives and reduce transaction problems (Yong and Zahra, 2012). Thus, the operational environment does not only create limits for organizations and individuals it also facilitates opportunities for action (Bruton *et al.*, 2010).

The IMF (2017) indicates that the Nigerian informal economy has grown at the rate of 8.5 % between 2015 and 2017 and accounts for 65% of GDP. Therefore, the informal sector in Nigeria is a significant sector that has helped absorb unemployment in the labour market. Furthermore, research evidence has shown that the informal sector in Nigeria is marginalized (Beers et al., 2014). Davies and Thurlow (2009) suggest two reasons for this marginalization. Firstly, there is a general notion of two sectors of the economy: the private sector and the public sector, neglecting the informal. Secondly, the education systems train students to be employed thus, neglecting self-employment or entrepreneurship.

Other studies such as Fasanya and Onakoya (2012) have shown that the Nigerian informal economic sector caters for both skilled and semi-skilled laborers and helps significantly in the labour market. Fasanya and Onakoya (2012) also argue that policies put forward by the Nigerian government have long failed to avert unemployment and despite much review of policies by successive regimes, unemployment persists and if not for the informal sector, the economy of Nigeria would be in disarray.

In conclusion, it is seen in this case study that the Nigerian informal economy has contributed significantly to the country's economy despite numerous challenges. The Nigeria informal economy also provides employment to the unemployed.

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#### Questions:

1. What challenges are faced by the Nigerian informal economy?
2. Given the contribution of the informal economy to Nigeria's GDP, should the government regulate the informal economy?
3. What should the government do to assist the informal sector?